

Deciphering Product-led Growth: What, Why, How?

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Key Takeaways

Introduction

We are at an inflexion point of a massive transition towards consumerization (consumer-grade UX in B2B SaaS products) driven by tech-savvy users who demand more attractive, intuitive, powerful, and affordable software. Amidst the huge transformation in the way people buy & use software products these days - what makes it bigger than ever - is a shift in both consumer demand and market supply.

According to the 2015 Forrester report, [nearly 75% of B2B buyers](#) now state that they prefer buying through an app/website to buying from a sales rep. Further, buyers today expect personalization, and [80% of people](#) are more likely to go into business with a company offering personalization. The market is accordingly rising to meet these consumer demands.

In reality, an exceptional customer experience has always been the key to success. But what was once owned by sales, customers now look forward to experiencing the product they're buying firsthand rather than interacting with salespeople or responding to marketing campaigns. Hence, to keep pace with the market and get ahead, businesses should reshape marketing, sales, and service strategies and reconsider the roles of their customer-facing teams.

Origin of Product-led Growth

In the 80s and the 90s, tech product growth was mainly sales- and marketing-led, and adopting new software took months, quarters, or even years. Much has changed, and technology has become way cheaper to create, deploy, and disperse. Also, smaller teams have found the freedom to iterate faster than their enterprise counterparts. Besides, the internet has made global distribution insignificant, and products have begun competing based on their intrinsic value rather than their sales or marketing firepower.

Nowadays, the software is introduced mainly by individual end-users who endorse its use. Furthermore, people find, download, and adopt products independently without any directive; and often, end-users suggest to their superiors which software to purchase.

As the software market is constantly evolving, we're witnessing the rise of the end-user, and this extensive market shift has implications for the way companies do business. The bottom line is that software companies need to adapt & adopt the end-user to stay relevant - and hence - it's now time for sales- and marketing-led growth to make way for product-led growth.

What is Product-led Growth?

The PLG Model Explained

Product-led Growth (PLG) is a business model that focuses on end-users by positioning the product as the primary driver of customer acquisition, retention & expansion. More precisely, it is a strategy that utilizes the product as a channel to drive organizational KPIs (like revenue, engagement, and reach).

In the case of a product-led business, more focus is given to making great in-product experiences for its users rather than depending on marketing and sales teams to earn paying customers. Providing buyers access to products through free trials and freemium plans lets the product do all the talking and delivers immediate value to its users.

PLG model creates company-wide alignment across teams ranging from engineering to sales and marketing around the product for sustainable & scalable business growth. With a product-led growth strategy, companies, by leveraging their products, can expand quickly & efficiently to generate a pipeline of active users who later convert into yielding customers. With PLG, businesses provide an innovative and personalized product experience, driving customer loyalty & retention.

Key Features of PLG

In the PLG model, the product itself becomes the experience as companies provide access to products before purchase, personalizing each user's journey. The primary features of the PLG model are the following:

1. **Independent business growth:** In a product-led growth model, the business grows without investing in paid advertising or a sales team.
2. **Purely customer-centric:** Creates delighted customers who promote the business, all on their own accord.
3. **Independent adoption of the product:** Users' ability to onboard themselves is the key to product-led growth, creating the "aha moment" faster.
4. **Non-committal price:** A freemium-based pricing model usually fuels PLG. Users get started on their own and interact with the tool without committing to any monthly/annual fee.

Product-led vs Sales-/Marketing-led

Of the three growth models (Sales-led, Marketing-led, and Product-led) companies usually employ one or a combination of the three. The differences between them come down to internal alignment.

1. **Sales-led:** Sales-led companies depend heavily on outbound sales, one-to-one discussions, personal connections, customized sales processes & long sales cycles.
2. **Marketing-led:** Marketing-led companies focus on persuading customers of a product's value and acquiring leads. The potential customer must be precisely conveyed about the product and its value.
3. **Product-led:** The product-led companies, however, allow their products to do all the talking. Instead of outbound sales, these companies prompt their prospects to engage with the product immediately through a free trial/"freemium" subscription.

Why Product-led Growth?

Product-led Growth is the Future

In earlier traditional models, salespersons/marketing materials were employed to persuade customers of the value of a product. However, the PLG models get customers to realize the product's value on their own by allowing them to use it before purchasing.

Allowing prospects to use a well-built product before purchase lets them uncover its benefits firsthand - no persuasion required. By leading with the product's value, a considerable part of the traditional sales & marketing processes thereby become automated.

Building a profitable SaaS company is quite a challenging task. Reasons why using a product-led growth strategy can sustain and grow SaaS business are:

- Due to the high rate of competition the startups face because of the lower entry barrier, it's pretty expensive to acquire customers.
- Buyers/users prefer to self-educate. With the hassle-free PLG model, they can easily decide on a product by trying it out through a free trial (or freemium)
- Users these days prefer product experience before the actual purchase. Netflix is an ideal instance where the user is not required to contact a sales guy or book a demo, and the entire onboarding & upgrade experience is driven by the product.

So, what in reality makes Product-led Growth so powerful?

In the PLG business model, the momentum is retained and boosted exponentially by the increased interest and word-of-mouth publicity of a well-designed product. Product-led growth is thus a brand new way of expanding a SaaS business.

Countless SaaS businesses have opted to switch to a product-led strategy to create an economic moat around their business over the years. Further, product-led organizations are unique as having the product team involved across every department allows them to create a seamless customer experience.

PLG as a Go-To-Market Strategy

In the PLG model, the company's Go-To-Market (GTM) strategy places the product at the helm. PLG is also a company-wide action strategy that aligns how sales, marketing, customer success, engineering, and product teams measure success & contribute to growth.

Salient points to keep in mind for a product-led GTM strategy are:

- The business should sell to users, not buyers.
- Depends on word-of-mouth, not on traditional promotion techniques.
- The product should be ahead of competitors in terms of trustworthiness, ease of use, better value, and UX.
- Users should turn into buyers after experiencing the product, not via sales reps.
- This strategy opens up to a considerable number of potential customers much earlier in their journey.
- Further, the product must demonstrate its value effectively within a short period for users to convert to paying customers.

The PLG strategy speaks directly to the needs of end users, is associated with freemium & bottom-up distribution, and is more than an easy go-to-market formula. Any company, irrespective of those selling to large enterprises or functioning in niche vertical markets, can embrace PLG principles to enhance user experiences and improve go-to-market efficiency.

Advantages of PLG

Product-led companies often have the edge over their competitors because of:

1. **Accelerated Growth Engine** - Product-led companies grow and scale at a faster rate than their competitors in two powerful ways:
 - a. The free trial/freemium models allow the company to reach out to people earlier in the customer journey.
 - b. The onboarding process can be improved to service more customers worldwide within a short span of time.
2. **Shorter Sales Cycles** - As the prospects onboard themselves, they experience the product's value and upgrade themselves automatically, thus significantly lessening the time-to-value and sales cycle.
3. **Better Conversion Rate** - The faster users can accomplish an outcome with the product, the quicker they convert into paying customers.
4. **Higher Revenue** - Product-led growth leads to higher revenue per employee (RPE).
5. **Lower Customer Acquisition Cost** - Product-led companies take a bottom-up approach to acquiring a new customer. Here the product itself makes much of the sales, marketing, and customer success work, thus reducing the customer acquisition cost (CAC).
6. **Better Product & UX** - In a product-led approach, the product is better, intuitive, and more user-friendly. As the product is built for people to onboard themselves, they can experience meaningful value in the product without hand-holding.
7. **Greater Customer Loyalty** - PLG capitalises on solid customer relationships, and product development & improvements occur from customer engagement data and feedback. Hence customer loyalty is quite strong in a product-led approach and happens automatically without human intervention.

How to Become a Product-Led Company?

Becoming Product-led

To be a fully product-led company, a business must traverse a unique path. It is a journey that demands a shift in mindset at individual and company levels, which takes time, effort, and dedication. This process of becoming product-led can be a long one that varies from company to company, and there is no *one-size-fits-all* approach.

How to become a product-led company after embracing a PLG strategy? To create a successful product-led business, the company needs to:

1. Comprehend the value it brings to the customers.

2. Communicate that value distinctly to the customer.
3. Deliver on that value.

Two critical changes/transformations are a must - both in the product and the organization.

Product transformation - Firstly, an incredible product that delivers the value promised is a must. PLG demands sophisticated, personalized product experiences for the users. To create an engaging product experience capable of illustrating its value, a profound insight into users' journey and the problems they're trying to solve is a must, which implies:

- Designing products via a combination of user journey mapping, user testing, and intelligent data implementation.
- Understanding what unique users are trying to achieve with the product and offering effective user onboarding centred around user goals (not product features).
- Adapting the experience at the individual level, effectively allowing the product to serve as support, customer success, sales, and marketing.

Organizational change - Secondly, the more challenging transformation must take place in the organization. Product-led Growth is a far-reaching company-wide process that requires strong coordination and collaboration across departments, which implies:

- A significant internal and cultural shift, wherein every team must rally behind the product and end-user success.
- Choosing a suitable model, defining end-user success, and experimenting.
- For product-led growth to become a reality, the entire organization must join hands to re-evaluate the criteria and tactics driving sustainable growth.

In short, how a company markets, sells and retains buyers goes through a radical transformation.

How to Identify a Product-led Company?

So what does a product-led company look like? Several companies have successfully adopted product-led growth strategies, and each company executes this strategy uniquely.

However, some similar traits/ characteristics are usually noticeable, such as:

- They usually have a free model (freemium)
- Their marketing efforts are aimed at trying the product (vs. talking to a sales team)
- They have a low barrier to entry (self-serve vs. forced sales demo).
- They have an end-user-oriented growth strategy
- They solve a real/universal problem in a frictionless manner
- Usually, expansion is based on their current network

Examples of Product-led Companies

Let's look at a few most popular & highly successful product-led companies. We can also see how they have leveraged PLG to power their acquisition.

1. **Slack:**
Established in 2009, it is a team collaboration platform with over 10 million active daily users. Around 43% of the Fortune 100 businesses pay for Slack and are loud promoters due to their company-wide devotion to its great experience.
How they accomplished it: Slack provides a positive user experience, the basis on which all of its PLG capabilities are built. Most organizations initially adopted Slack as part of their self-service go-to-market approach, eventually leading to organic growth as users realized Slack's benefits.
2. **Atlassian:**
Software development giant "Atlassian" valued at more than USD 100 billion, has perfected the "bottom-up" Product-led Growth model.

How they accomplished it: Atlassian strongly relies on PLG strategy for its ongoing success. They facilitate the customer's buying journey with helpful resources and a transparent pricing plan, thus allowing them to see the value in continued use quickly.

3. **Airtable:**

Established in 2012, the company is worth more than \$1 billion. The spreadsheet-database hybrid is now found in offices worldwide.

How they accomplished it: It was built as a self-serve product that could be adopted from the bottom up. Airtable reduced the time to value customers get when experiencing the product for the first time. Its existing go-to-market approach puts customer success before (consultative) sales in the buyer journey.

4. **Calendly:**

Established in 2013 and currently valued at \$3B, Calendly helps users schedule and confirm meetings. This product is adored by 10 million monthly users around the world.

How they accomplished it: Calendly's ongoing success is primarily attributed to a core PLG principle - creating an easy-to-use product that effectively solves a common problem. It is a truly viral product as every time a person sends an invite via the app, they automatically promote the product and start a viral loop.

5. **Datadog:**

It is a monitoring platform for cloud-scale applications loved by the developers they serve. Since its inception in 2014, the company scaled rapidly and hit a \$25 billion market cap, and continues to exceed expectations.

How they accomplished it: Datadog is a shining example of how product-led adoption can scale to the enterprise. They solved a universal developer's pain point, delivered value without friction & grew rapidly after the initial adoption.

How to Measure Product-led Growth?

How can success be measured in a PLG model? Choosing the appropriate metrics — and aligning the team — is essential to the process.

Here's a list of essential PLG success metrics:

1. **Activation Rate:** Out of the total acquired users, the percentage of users who have experienced meaningful value in the product.
2. **Time-to-Value - TTV:** The time new users take to reach their activation or "aha moment." The primary goal of a good onboarding experience is to reduce TTV, thus helping new users realize the product's value early.
3. **Product Qualified Lead - PQL:** An activated user who has experienced meaningful value by utilizing the product via a free trial/freemium model.
4. **Conversion Rate:** Expressed as the percentage of users who have converted to a paid account from a free trial period.
5. **Average Revenue Per User - ARPU:** It is calculated as total MRR (monthly recurring revenue) divided by the number of customers. This is an indicator of the overall health of the business.
6. **Expansion Revenue:** It calculates the revenue yielded from current customers through add-ons, upsells, and cross-sells and is one of the essential levers for SaaS growth.

Key Takeaways

Today, the affordability and accessibility of software have completely democratized purchasing down to the end-user. The consumerization of software suggests that end users now demand better experiences from their tools.

Engaging and converting numerous individual end users demands a scalable, bottom-up distribution model that leverages user experience, empowering end users to discover, assess, and embrace the product independently.

- Software companies must rise to meet the market's demands, which means building a product for end-users and then distributing it directly to them.
- The product now becomes the critical driver of acquisition, monetization, and retention.
- Embracing a PLG model leads to faster returns and compounding growth - a growth fueled by explicit discovery, persistent use, word-of-mouth, and excellent product experiences.
- Product-led growth is fast evolving as a popular go-to-market strategy that provides the best possible user experience.
- An internal alignment with an enduring consumer trend that drives sustainable growth is the first step to becoming a product-led company.

Many well-known SaaS companies worldwide have leveraged the PLG model to drive customer acquisitions and continued success in recent years. Evidently, adopting Product-led Growth is how software businesses thrive and succeed in the current End User Era.
